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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Review, 2015 | Docket No. ACR2015

PUBLIC REPRESENTATIVE COMMENTS
REFILED TO INCLUDE ERRATA
(February 17, 2016)

Respectfully submitted,

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I. INTRODUCTION

Pursuant to the Commission's Notice,[1] the Public Representative hereby comments on the Postal Service's FY 2015 Annual Compliance Report (FY 2015 ACR) filed for fiscal year 2015 as prescribed by the Postal Accountability and Enforcement Act (PAEA).[2]

The Postal Service's FY 2015 ACR is "to demonstrate that all products during the year complied with all applicable requirements of [title 39]." 39 U.S.C. § 3652(a)(1). The Public Representative has reviewed the Postal Service's FY 2015 ACR together with previous Commission Annual Compliance Determinations (ACDs) and the Commission's directives and recommendations for Postal Service action in those proceedings. These Comments address matters relating to the Postal Service's (1) service performance, (2) customer satisfaction, (3) market dominant products, (4) worksharing, and (5) competitive products.[3]

Section II of these comments address the Postal Service's FY 2015 service performance results. The Public Representative concludes that service performance is

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[1] Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, Order No. 2968, December 30, 2015 (Order No. 2968).

[2] United States Postal Service FY 2015 Annual Compliance Report (FY 2015 ACR), December 29, 2015; *see* 39 U.S.C. § 3652.

[3] Comments on the Postal Service's strategic initiatives and performance plans required by 39 U.S.C. § 2803 and § 2804 and are deferred to a time to be determined by a forthcoming Commission notice regarding the Postal Service's FY 2014 Performance Report and FY 2015 Performance Plan. *See* Order No. 2968 at 2, fn.2.

generally declining across the postal network. The Public Representative urges the Commission to take a more active role in driving improvement in this area. The Public Representative also asks the Commission to implement a new metric, “actual calendar days to delivery,” that may provide better insight into actual service performance.

Section III of these comments address the Postal Service’s FY 2015 customer satisfaction results. The Public Representative makes the following conclusions. Wait-time-in-line results are acceptable. The results in customer satisfaction surveys show a decline in customer satisfaction. The number of collection boxes continues to decline further reducing customer access. The data provided by the Postal Service on the number of post offices is thus far problematic and cannot reliably be used to analyze the status of the number of post offices.

Section IV of these comments address the Postal Service’s FY 2015 market dominant statutory requirements. A focus of the comments is on whether or not products cover attributable costs. The Public Representative concludes that at least seven market dominant products are underwater, equaling approximately $1.250 billion in lost revenues.

Section V of these comments address the Postal Service’s FY 2015 worksharing statutory requirements. The Public Representative focuses on thirty-six First-Class Mail, Standard Mail, and Package Service worksharing passthroughs that exceed 100 percent. The Public Representative urges the Commission to require the Postal Service to provide more substantial justification in the future for these excessive passthroughs. The Public Representative also notes that there may not be a pending, near-term, price adjustment in which the Postal Service might remedy some of the excessive passthroughs. This may require the Commission to either direct the Postal Service to take corrective action when the exigent surcharge prices are removed, or to schedule a price adjustment docket in the immediate future solely for the purpose of implementing corrective actions.

Section VI of these comments address the Postal Service's FY 2015 competitive products requirements. The Public Representative concludes that the competitive products statutory requirements are generally met. However, there are seven products that do not cover attributable costs.

II. SERVICE PERFORMANCE

A. Introduction

The Postal Service is required to annually report the level of service achieved by each market dominant product (in terms of speed of delivery and reliability). 39 U.S.C. § 3652(a)(2)(B)(i). Whether or not the level of service achieved is in compliance with the applicable service standards is determined by comparing the actual level of service against service targets (goals) established by the Postal Service. Based upon this comparison, the Commission then makes an annual determination of whether or not individual market dominant products were in compliance with the service standards in effect during such year. 39 U.S.C. § 3653(b)(2).

The Postal Service reports that not one First-Class Mail product met its service performance target in FY 2015. The Public Representative observes that all First-Class Mail service performance scores were lower in FY 2015, then in FY 2014.

Within Standard Mail, the Postal Service reports that only High Density and Saturation Letters, and Parcels, exceeded service performance targets. High Density and Saturation Flats/Parcels, Carrier Route, Letters, Flats, and Every Door Directs Mail-Retail fell below service performance targets. The Public Representative observes that every Standard Mail service performance score, except for Carrier Route (which in any event was below target), was lower in FY 2015, then in FY 2014.

The Postal Service reports that both Periodicals products failed to meet service performance targets in FY 2015. The Public Representative observes that both Periodicals service performance scores were lower in FY 2015, then in FY 2014.

The Postal Service reports that within Package Services, Bound Printed Matter Parcels and Media Mail/Library Mail meet their service performance target in FY 2015. However, Bound Printed Matter Flats only met its service performance standard 45.2 percent of the time, which is 44.8 percent below target. The Public Representative observes that only Bound Printed Matter Parcels showed any service performance improvement in FY 2015.

The Postal Service reports that most Special Services, except for Post Office Box Service, exceeded their service performance targets. The Public Representative observes the year-over-year decline in Post Office Box Service scores, which should be a cause for concern.

The Postal Service states:

> During FY 2015, the Postal Service implemented significant changes to the operating window as part of its network rationalization plan. These changes impacted the schedules for nearly all mail processing and transportation activities nationwide. Service performance results declined in several categories in FY 2015 compared to prior years as the Postal Service worked to stabilize operations by aligning the right resources to activities under the new operating plan to meet both service performance targets and cost savings objectives.

FY 2015 ACR at 56.

The Public Representative is not surprised that network rationalization has had an impact on service performance. However, it is uncertain as to whether the Postal Service's cost cutting efforts (*i.e.,* network rationalization) are being carried out at the expense of service performance, or whether the Postal Service will be able to both adjust its network and meet service performance targets in the near future.[4]

The Public Representative is, however, discouraged by the lack of visibility (any plan) that the Postal Service provides in its FY 2015 ACR as to how it is going to achieve service performance goals in the future. In prior ACDs, the Commission has monitored service performance, and encouraged the Postal Service to take action

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[4] Price cap systems, such as the PAEA, provide an incentive to control (typically reduce) costs to achieve the goal of living within the applicable price cap. When costs cannot be easily controlled, operators are sometimes tempted to reduce service as the quickest means to reducing costs. However, from a customer's perspective, there may be little difference between a reduction in service (which may effectively transfer costs to the customer), and a price increase (which pierces the price cap). This is why price cap systems frequently tie service performance to the price cap calculation. The Commission has not directly tied service performance to the price cap at this point in time (although the Public Representative would argue that this is permissible under the PAEA).

where necessary. In several instances the Commission has directed the Postal Service to provide more specifics concerning its plans to improve service performance. The Postal Service typically responds to such Commission direction with one or two line statements that in the opinion of the Public Representative are wholly insufficient. As evidenced by the FY 2015 service performance results, the Commission's gentle prodding appears to be ineffective and ignored. Increased action/oversight by the Commission appears to be necessary at this time.

Reported service performance for each class of market dominant mail is discussed below. This is followed by the Public Representative's suggestions for action that the Commission might consider to drive improvement in market dominant service performance.

B. First-Class Mail

None of the First-Class Mail products met service performance targets for FY 2015. Every annual FY 2015 service performance score was less than the corresponding annual FY 2014 service performance score. Significantly, 3-5-Day Single-Piece Letters/Postcards, which has recently experienced a significant volume increase due to network rationalization, has seen an 11.3 percent decline in service performance. Table II-1 (domestic First-Class Mail products) and Table II-2 (International First-Class Mail products) compare the First-Class Mail annual targets and percent on-time performances for FY 2013 through FY 2015.

Table II-1 [REVISED 2/17/2016]
Domestic First-Class Mail Annual Targets and Percent On-Time
FY 2013 through FY 2015

First-Class Mail	Annual FY 2013[1]		Annual FY 2014[2]		Annual FY 2015[3]	
	Target (%)	On-Time (%)	Target (%)	On-Time (%)	Target (%)	On-Time (%)
Single-Piece Letters/Postcards						
Overnight	96.70	96.8	96.80	96.7	96.80	95.8
Two-Day	95.10	96.0	96.50	95.7	96.50	94.0
Three-To-Five-Day	95.00	92.5	95.25	88.6	95.25	77.3
Presort Letters/Postcards						
Overnight	96.70	97.3	96.80	97.2	96.80	96.0
Two-Day	95.10	97.2	96.50	96.6	96.50	93.8
Three-To-Five-Day	95.00	95.4	95.25	92.5	95.25	88.0
Flats						
Overnight	96.70	86.6	96.80	84.9	96.80	83.2
Two-Day	95.10	84.4	96.50	82.5	96.50	79.8
Three-To-Five-Day	95.00	77.6	95.25	72.6	95.25	65.3
Parcels						
Overnight	96.70	89.8	96.80	88.4	96.80	84.8
Two-Day	95.10	89.1	96.50	86.8	96.50	84.2
Three-To-Five-Day	95.00	88.8	95.25	83.8	95.25	73.7
Exceeded Target by:	≥0%					
Missed Target by:	>0-5%	5-10%	10-15%	15-20%	>20%	

[1] Library Reference USPS-FY13-29, Annual Report on Service Performance for Market Dominant Products at 4.
[2] Library Reference USPS-FY14-29, Annual Report on Service Performance for Market Dominant Products at 4.
[3] Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products at 4.

Table II-2 [REVISED 2/17/2016]
International First-Class Mail Annual Targets and Percent On-Time
FY 2013 through FY 2015

First-Class Mail	Annual FY 2013[1]		Annual FY 2014[2]		Annual FY 2015[3]	
	Target (%)	On-Time (%)	Target (%)	On-Time (%)	Target (%)	On-Time (%)
Outbound Single-Piece First-Class Mail International						
Overnight		94.3		93.0		90.4
Two-Day		92.7		93.2		92.5
Three-To-Five-Day		87.5		85.7		82.5
Combined	94.0	88.9	94.0	87.8	94.0	85.3
Inbound Single-Piece First-Class Mail International						
Overnight		92.3		91.8		88.6
Two-Day		90.7		89.4		83.7
Three-To-Five-Day		86.5		82.9		71.3
Combined	94.0	88.0	94.0	85.2	94.0	75.6
Exceeded Target by:	≥0%					
Missed Target by:	>0-5%	5-10%	10-15%	15-20%	>20%	

[1] Library Reference USPS-FY13-29, Annual Report on Service Performance for Market Dominant Products at 4.
[2] Library Reference USPS-FY14-29, Annual Report on Service Performance for Market Dominant Products at 4.
[3] Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products at 4.

Quarterly data for the domestic First-Class Mail products were examined. It appears to the Public Representative that typically the highest service performance is achieved in the first quarter, and the lowest service performance occurs in the second quarter. This might be an indication that lower service performance coincides with the winter months. It also appears to the Public Representative that the largest quarterly changes in service performance occurred within the 3-5-Day category of products. The service standards for these products are, in part, affected by long distance transportation issues. Quarterly FY 2015 domestic First-Class Mail service performance is shown in Table II-3.

Table II-3
First-Class Mail Annual Targets and Quarterly Percent On-Time
FY 2015

First-Class Mail	Annual Target (%)	Q1 On-Time (%)	Q2 On-Time (%)	Q3 On-Time (%)	Q4 On-Time (%)	Annual On-Time (%)
Single-Piece Letters/Postcards						
Overnight	96.80	95.9	92.3	-	-	95.8
Two-Day	96.50	94.7	91.1	95.0	95.7	94.0
Three-To-Five-Day	95.25	83.9	63.7	78.3	83.1	77.3
Presort Letters/Postcards						
Overnight	96.80	97.0	94.4	96.0	96.5	96.0
Two-Day	96.50	96.3	89.7	94.1	95.1	93.8
Three-To-Five-Day	95.25	91.2	80.9	89.0	91.2	88.0
Flats (Presorted)						
Overnight	96.80	85.5	78.1	81.8	82.4	81.9
Two-Day	96.50	84.6	73.2	78.1	80.5	79.1
Three-To-Five-Day	95.25	78.6	63.3	72.1	76.5	72.7
Flats (Single-Piece)						
Overnight	96.80	84.3	66.3	-	-	83.9
Two-Day	96.50	80.9	79.3	80.4	79.7	79.9
Three-To-Five-Day	95.25	67.7	51.0	56.9	61.4	59.3
Parcels						
Overnight	96.80	84.9	78.3	-	-	84.8
Two-Day	96.50	83.4	84.0	85.5	83.9	84.2
Three-To-Five-Day	95.25	77.8	72.0	73.8	70.7	73.7
Exceeded Target by:	≥0%					
Missed Target by:	>0-5%	5-10%	10-15%	15-20%	>20%	

[1] Library Reference USPS-FY13-29, Annual Report on Service Performance for Market Dominant Products at 4.
[2] Library Reference USPS-FY14-29, Annual Report on Service Performance for Market Dominant Products at 4.
[3] Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products at 4.

The Postal Service explains that:

> During Postal Quarter 2, the disruption caused by realigning staffing and educating employees in new jobs resulted in slippage of performance. In addition, network constraints contributed to the decline in service performance. During the early part of 2015, the contiguous 48 states experienced an increase in the number of named winter storms. These storms resulted in interrupted network flows for First-Class Mail in general.

Library Reference USPS-FY15-29 at 8-9.

Winter month transportation issues certainly could explain the dips in service performance during the second quarter. However, these issues are not anomalies. Winter weather is an annual event that the Postal Service must plan and prepare for.

Furthermore, all but one quarterly service performance score fell below annual targets. This provides an indication that winter month transportation issues might contribute to low annual service performance. However, it does not explain the root cause for why First-Class Mail products generally are not compliant with meeting the annual service performance targets.

In the FY 2013 ACD, the Commission stated that "[t]he Postal Service must improve performance for products that did not meet the annual targets. The Postal Service should take appropriate action to improve performance for these products." FY 2013 ACD at 107.

In the FY 2014 ACD, the Commission stated that it generally "expects First-Class Mail service performance to improve in FY 2015." For Flats, the Commission directed "the Postal Service to improve service for First-Class Mail Flats in FY 2015 or to provide an explanation in the FY 2015 ACR for why efforts to improve service performance results for First-Class Mail Flats have been ineffective and detail what changes it plans to make to improve service performance." FY 2014 ACD at 104.

In the FY 2015 ACR, the Postal Service stated that:

> During FY 2016, the Postal Service continues to optimize surface and air capacity to ensure service responsive network transportation. These efforts include pair-to-pair analysis of highest impact transportation lanes, maximizing utilization of mail processing equipment and reducing on-hand mail inventories. The Postal Service also plans to increase emphasis on the processing of First-Class Mail Flats. This will include standardizing the handling of special sort assignments on the flat sorting equipment.

Library Reference USPS-FY15-29 at 8-9.

Service performance is degrading for all First-Class Mail products. The Public Representative suggests that the Commission increase oversight and visibility of the Postal Service's efforts to improve service performance for the First-Class Mail products that are not meeting service performance goals. Priority should be given to improving the 3-5-Day service standard segments of the First-Class Mail products.

One suggestion is for the Commission to require the Postal Service to file a detailed plan within a reasonable timeframe that outlines the steps the Postal Service proposes to take to improve First-Class Mail service performance. This should be followed up with the Postal Service providing quarterly reports to the Commission on progress being made, and new efforts that may be undertaken. Prior passive encouragement by the Commission has not been shown to be effective. Active Commission oversight may now be necessary.

C. Standard Mail

In FY 2015, High Density and Saturation Letters, and Parcels, within Standard Mail exceeded their service performance targets. High Density and Saturation Flats/Parcels, Carrier Route, Letters, and Flats were not in compliance with meeting service performance targets. Standard Mail Flats was delivered within its service standard only 73.8 percent of the time. The Standard Mail targets and on-time percentages for FY 2013 through FY 2015 are compared in Table II-4.

Table II-4
Standard Mail Annual Targets and Percent On-Time
FY 2013 through FY 2015

Standard Mail	Annual FY 2013[1]		Annual FY 2014[2]		Annual FY 2015[3]	
	Target (%)	On-Time (%)	Target (%)	On-Time (%)	Target (%)	On-Time (%)
High Density and Saturation Letters	90.0	90.8	91.0	92.3	91.0	91.5
High Density and Saturation Flats/Parcels	90.0	87.0	91.0	87.2	91.0	87.0
Carrier Route	90.0	79.7	91.0	81.4	91.0	82.0
Letters	90.0	85.9	91.0	87.1	91.0	85.8
Flats	90.0	76.9	91.0	76.2	91.0	73.8
Every Door Direct Mail - Retail	-	-	-	-	91.0	78.5
Parcels	90.0	98.7	91.0	Data Not Available	91.0	98.1
Exceeded Target by:	≥0%					
Missed Target by:	>0-5%	5-10%	10-15%	15-20%	>20%	

[1] Library Reference USPS-FY13-29, Annual Report on Service Performance for Market Dominant Products at 10.
[2] Library Reference USPS-FY14-29, Annual Report on Service Performance for Market Dominant Products at 11.
[3] Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products at 11.

In the FY 2014 ACD, the Commission directed “the Postal Service to improve service for [the Standard Mail Carrier Route and Flats] products in FY 2015 or to explain in the FY 2015 ACR why efforts to improve results have been ineffective and what changes it plans to make to improve service performance.” FY 2014 ACD at 109.

In the FY 2015 ACR, the Postal Service stated it:

> plans to continue focusing on the improvement of Standard Flat processing by reducing the WIP cycle time by decreasing the time between bundle and next handling processing. This will be done by advancing the processing of Standard Flats to day zero (day of acceptance). We will also utilize the increased depth of distribution that the additional separations on the Automated Parcel and Bundle Sorter enable to reduce re-handling and manual sortation and advance the product to its final sortation.

Library Reference USPS-FY15-29 at 13-14.

Most Standard Mail service performance scores have gone down in FY 2015. While service problems in Standard Mail appear less severe than in First-Class Mail, the

Public Representative would still suggest that the Commission increase oversight and visibility of the Postal Service's efforts to improve service performance for the Standard Mail products that are not meeting service performance goals. Priority should be given to improving service performance for the Standard Mail Flats product.

One suggestion is for the Commission to require the Postal Service to file a detailed plan within a reasonable timeframe that outlines the steps the Postal Service proposes to take to improve Standard Mail service performance. This should be followed up with the Postal Service providing quarterly reports to the Commission on progress being made, and new efforts that may be undertaken. Prior passive encouragement by the Commission has not been shown to be effective. Active Commission oversight may now be necessary.

D. Periodicals

Neither In-County Periodicals nor Outside County Periodicals met service performance targets over the past 3 years. The trends indicate that service performances are degrading year-over-year. The Periodicals targets and on-time percentages for FY 2013 through FY 2015 are compared in Table II-5.

Table II-5
Periodicals Annual Targets and Percent On-Time
FY 2013 through FY 2015

Periodicals	**Annual FY 2013**[1]		**Annual FY 2014**[2]		**Annual FY 2015**[3]	
	Target (%)	**On-Time (%)**	**Target (%)**	**On-Time (%)**	**Target (%)**	**On-Time (%)**
In-County	91.0	82.0	91.0	80.9	91.0	77.7
Outside County	91.0	82.1	91.0	80.8	91.0	77.6
Exceeded Target by:	≥0%					
Missed Target by:	>0-5%	5-10%	10-15%	15-20%	>20%	

[1] Library Reference USPS-FY13-29, Annual Report on Service Performance for Market Dominant Products at 13.
[2] Library Reference USPS-FY14-29, Annual Report on Service Performance for Market Dominant Products at 15.
[3] Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products at 15.

In the FY 2014 ACD, the Commission directed "the Postal Service to improve service for Periodicals in FY 2015 or to explain in its FY 2015 ACR why efforts to improve results have been ineffective and what changes it plans to make to improve performance." FY 2014 ACD at 111-112.

In the FY 2015 ACD, the Postal Service reported it is:

> working to revise the processing procedures of mixed Periodicals to ensure a standard work flow for this mail. As a result, a standard workflow was developed for Periodicals including newspapers. National training was conducted with Postal Service field plants to provide guidance in the revised standard operational procedures. Additionally, the Postal Service will participate in training to update newspaper publishers and printers on mail preparation requirements. Finally, the Postal Service is using the WIP cycle time to identify locations and operations where the time between arrival and bundle-to-piece distribution is outside of control and working to standardize the operations involved.

Library Reference USPS-FY15-29 at 16-17.

Periodicals service performance scores have gone down in FY 2015 with both products missing their targets by greater than 13 percent. The Public Representative suggests that the Commission increase oversight and visibility of the Postal Service's efforts to improve service performance for the Periodicals products that are not meeting service performance goals.

One suggestion is for the Commission to require the Postal Service to file a detailed plan within a reasonable timeframe that outlines the steps the Postal Service proposes to take to improve Periodicals service performance. This should be followed up with the Postal Service providing quarterly reports to the Commission on progress being made, and new efforts that may be undertaken. Prior passive encouragement by the Commission has not been shown to be effective. Active Commission oversight may now be necessary.

E. Package Services

The Postal Service reported that Bound Printed Matter Parcels and Media Mail/Library Mail exceeded their service performance targets for FY 2015. However, it also reported that Bound Printed Matter Flats only met its service standard 45.2 percent of the time for FY 2015. This represents a 15 percent decline from FY 2014. The Package Services targets and on-time percentages for FY 2013 through FY 2015 are compared in Table II-6.

Table II-6
Package Services Annual Targets and Percent On-Time
FY 2013 through FY 2015

Package Services	Annual FY 2013[1]		Annual FY 2014[2]		Annual FY 2015[3]	
	Target (%)	On-Time (%)	Target (%)	On-Time (%)	Target (%)	On-Time (%)
Bound Printed Matter Flats	90.0	62.6	90.0	60.2	90.0	45.2
Bound Printed Matter Parcels	90.0	98.4	90.0	99.3	90.0	99.4
Media Mail/Library Mail	90.0	93.3	90.0	91.7	90.0	91.2
Exceeded Target by:	≥0%					
Missed Target by:	>0-5%	5-10%	10-15%	15-20%	>20%	

[1] Library Reference USPS-FY13-29, Annual Report on Service Performance for Market Dominant Products at 18.
[2] Library Reference USPS-FY14-29, Annual Report on Service Performance for Market Dominant Products at 20.
[3] Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products at 18.

In the FY 2013 ACD, the Commission observed that Bound Printed Matter Flats service performance results remain the lowest among Package Services products. The Commission stated that "the Postal Service should develop strategies to enhance Full-Service mailer participation and increase service performance results." FY 2013 ACD at 115.

In the FY 2014 ACR, the Postal Service stated that it "continues to use scan data to diagnose root cause of failures. Sites most impacting the nation's scores are put on a vitals list so that they can be better monitored. The Postal Service expects that this will result in increased service performance scores for Package Services in FY 2015." Library Reference USPS-FY14-29 at 22.

In the FY 2014 ACD, the Commission again noted the decrease in service performance for Bound Printed Matter Flats.

> The Commission views the Postal Service's previous strategies to increase performance results as largely ineffective. It directs the Postal Service to improve performance for BPM Flats in FY 2015 or include a discussion of its FY 2015 strategies to increase results and measureable volume in its FY 2015 ACR.

FY 2014 ACD at 114.

In the FY 2015 ACR, the Postal Service discussed some of the problems associated with Bound Printed Matter Flats service performance issues. It further stated it:

> …plans to focus on the improvement of Bound Printed Matter Flat processing by reducing the WIP cycle time for machine compatible pieces by decreasing the time between bundle and next handling processing. This will be done by advancing the processing of Standard Flats to day zero (day of acceptance). The Postal Service is reviewing the entry and make-up requirements for this product to improve its ability to be processed efficiently.

Library Reference USPS-FY15-29 at 20-21.

The Bound Printed Matter Flats service performance score continued its decline from FY 2013 thorough FY 2015. The Public Representative concludes that the gentile prodding of the Postal Service over the past years by the Commission to improve Bound Printed Matter Flats service performance has not been effective.

The Public Representative suggests that the Commission increase oversight and visibility of the Postal Service's efforts to improve service performance for the Bound Printed Matter Flats product which is not meeting service performance goals.

One suggestion is for the Commission to require the Postal Service to file a detailed plan within a reasonable timeframe that outlines the steps the Postal Service proposes to take to improve the Printed Matter Flats product's service performance. This should be followed up with the Postal Service providing quarterly reports to the Commission on progress being made, and new efforts that may be undertaken.

As an alternative, the Commission could inquire whether or not the Postal Service believes the Bound Printed Matter Flats service performance standard (and target) is realistic. If unrealistic, the Postal Service should be required to revise the service performance standard (and target). Realistic service performance standards (and targets) better inform customers of the actual service that is being provided, and allow customers to plan accordingly. A price adjustment also may be necessary such that the product's price reflects the value of service actually being provided.

F. Special Services

The Postal Service reports that "[a]ll Special Services achieved the established service targets at the reporting level required in this report except for Post Office Box Service which had an on-time score of 89.7 percent against the target of 90.0." Library Reference USPS-FY15-29 at 25. The anomaly experienced by Address List Services in FY 2014 did not re-occur in FY 2015. The Commission did not order any actions to improve Special Services performance in the FY 2014 ACD.

Special Services targets and on-time percentages for FY 2013 through FY 2015 are compared in Table II-7.[5]

[5] The Postal Service lists additional Special Services that are exempt from reporting at this time in Library Reference USPS-FY15-29 at 24-25.

Table II-7 [REVISED 2/17/2016]
Special Services Annual Targets and Percent On-Time
FY 2013 through FY 2015

Special Services	Annual FY 2013[1]		Annual FY 2014[2]		Annual FY 2015[3]	
	Target (%)	On-Time (%)	Target (%)	On-Time (%)	Target (%)	On-Time (%)
Ancillary Services	90.0	91.4	90.0	92.3	90.0	92.1
International Ancillary Services	90.0	99.3	90.0	99.7	90.0	99.7
Address List Services	90.0	100.0	90.0	33.3	90.0	100.0
Caller Services	-	E.F.R.	-	E.F.R.	-	E.F.R.
Change-of-Address Credit Card Authentication	-	E.F.R.	-	E.F.R.	-	E.F.R.
Confirm	90.0	99.7	-	-	-	-
International Reply Coupon Service	-	E.F.R.	-	E.F.R.	-	E.F.R.
International Business Reply Mail Service	-	E.F.R.	-	E.F.R.	-	E.F.R.
Money Orders	90.0	92.2	90.0	98.3	90.0	99.3
Post Office Box Service	90.0	90.9	90.0	90.2	90.0	89.7
Customized Postage	-	E.F.R.	-	E.F.R.	-	E.F.R.
Stamp Fulfillment Services	90.0	99.5	90.0	98.4	90.0	97.1
E.F.R. = Exception From Reporting						
Exceeded Target by:	≥0%					
Missed Target by:	>0-5%	5-10%	10-15%	15-20%	>20%	

[1] Library Reference USPS-FY13-29, Annual Report on Service Performance for Market Dominant Products at 22.
[2] Library Reference USPS-FY14-29, Annual Report on Service Performance for Market Dominant Products at 25.
[3] Library Reference USPS-FY15-29, Annual Report on Service Performance for Market Dominant Products at 23.

In FY 2015, Post Office Box Service continued its multi-year performance decline, and for the first time in recent history did not remain above the 90.0 percent target level. The Postal Service explains that "[i]n FY15, USPS experienced a change in mail mix and moved to a non-scheme qualified bid environment. This had an impact on both the distribution of mail for the letter carrier and the PO Boxes…." Library Reference USPS-FY15-29 at 25.

The Public Representative suggests that the Commission require the Postal Service to report the actual steps the Postal Service proposes to take to ensure Post Office Box Service does not continue to deteriorate. For customers that rely on their mail being in their post office box by the scheduled cut-off time, missing the cut-off time effectively adds a day to the time it takes to receive their mail.

The Public Representative further suggests that the Commission require the Postal Service to provide an explanation of how this extra day is measured and accounted for (when it occurs) in the service performance scores for the individual classes of mail. The impact could be substantial if approximately 10 percent of post office box mail is not available on time.

G. Suggestions for Possible Additional Commission Actions

1. Quarterly public meetings for the Postal Service to present service performance results and explain plans for improvement

The Public Representative suggests that the Commission host quarterly public meetings where the Postal Service presents service performance results and explains plans for improvement. This proactive approach could focus significant attention on service performance issues, which may lead to service performance improvements. The Commission's past passive approach has not proven effective in inspiring the Postal Service to take appropriate action on its own. A more active approach that requires the Postal Service to identify responsible management, and develop and report on actual improvement plans, may be a step in the right direction.

2. Reporting calendar days-to-delivery could improve visibility into service performance for market dominant products

The Public Representative suggests that visibility into service performance could be improved by requiring the Postal Service to report average calendar days-to-delivery for each deliverable market dominant mail product. Reporting by days-to-delivery, instead of by Postal Service business rule days, provides customers with an actual expectation of mailing durations without having to understand the Postal Service's business rules. It also more readily captures the effects of Postal Service network changes on service expectations.[6]

Using First-Class Mail for example, the Postal Service's inability to meet any of its service performance targets (based on Postal Service business rule days) indicates that service performance has deteriorated and customers are not receiving the service that they are paying for. However, the Postal Service business rule days system of measurement does not provide an adequate indication of the actual extent that mail delivery has slowed over the past several years. For example, it did not capture the effect of eliminating overnight service and moving this mail volume to 2-Day or 3-5-Day service. It also did not capture the effect of moving a substantial volume of 2-Day mail to the 3-5-Day service standard.

A single days-to-delivery score for each First-Class Mail product would show how service changes over time. Individual single days-to-delivery scores for 2-Day and 3-5-Day mail would provide customers of an estimate of the actual calendar days it takes from entry of their mail through final delivery.[7]

H. Conclusion on Service Performance

In conclusion, service performance is not improving, and in many areas is far from meeting service performance targets. The Commission has tried a passive approach over the past few ACD cycles to get the Postal Service to improve service performance. It may be necessary for the Commission to take a more active approach throughout the year to ensure improved service performance in FY 2016.

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[6] These changes include, but are not limited to, the alignment of ZIP Code pairs with individual day to delivery service standards, potential changes in Postal Service business rules, and other Postal Service operational changes.

[7] Additional visibility could be provided by disaggregating by the day of the week upon which a mail piece is entered into the system. It could be further reported by time spans that include a holiday, and those that do not.

III. CUSTOMER SATISFACTION

A. Introduction

The Postal Service must report on customer satisfaction in terms of customer access to postal services (39 C.F.R. § 3055.91) and the results of customer experience surveys (39 C.F.R. § 3055.92) when fulfilling its requirements under 39 U.S.C. § 3652(a)(2)(B)(ii).

B. Customer Access to Postal Services

39 C.F.R. § 3055.91 requires the Postal Service to report annual changes in the number of post offices and collection boxes.

1. Number of (P)ost (O)ffices

Meaningful customer access to postal facilities is a requirement for millions of Americans. Unfortunately, the data provided by the Postal Service concerning customer access locations is questionable, and year-over-year comparisons of the number of customer access locations cannot be made. For example, the numbers of access locations at the end of FY 2014 (Library Reference USPS-LR-FY14-33) is different from the numbers of access locations at the start of FY 2015 (Library Reference USPS-LR-FY15-33). There is no explanation for what happened to 2779 locations between the end of FY 2014 and the start of FY 2015.[8]

On January 21, 2016 the Postal Service filed errata to its FY 2015 ACR. The errata clarified that "[a]t the end of FY 2015, there were 26,518 Post Offices, 4621 Stations and Branches, and 528 Carrier Annexes." FY 2015 ACR at 59 (errata filed January 21, 2016). Even using the totals provided in the errata, the end of FY 2014 numbers and the start of FY 2015 numbers cannot match up. The Postal Service does

[8] There are also similar discrepancies, but less severe, in the number of suspensions.

state that it will revise Library Reference USPS-FY15-33. The Public Representative urges the Commission to require the Postal Service to resolve these discrepancies.

The Postal Service made no changes to the reported 874 Village Post Offices at the end of FY 2015. FY 2015 ACR at 60. This is an increase of 115 Village Post Office facilities in FY 2015.

The Postal Service also reports that it started the fiscal year with 496 suspensions of Post Offices, Stations/Branches and Carrier Annexes. It suspended an additional 76 during the fiscal year. It ended the year with 577 suspended facilities. USPS-FY-15, Post Offices FY2015.xls, Sheet "Suspensions." In the FY 2014 ACD, the Commission stated that it "has previously recommended that the Postal Service proceed expeditiously in either discontinuing offices under suspension or reopening them. It reiterates that recommendation in this proceeding." FY 2014 ACD at 3.

It appears that the Postal Service is not heeding the Commission's advice with regard to suspensions. So long as the Postal Service does not discontinue offices under suspension or take action to reopen them, it lends credence to the belief that the Postal Service is reducing customer access without having to go through the formal procedures for closing facilities. The Public Representative urges the Commission to take a more active role by increasing visibility into this issue. One approach is to require the Postal Service to provide the Commission with quarterly reports on the Postal Service's progress towards reducing the number of suspended facilities.

2. Number of Collection Boxes

The Postal Service states that "[n]ationally, there were 153,999 collection boxes available at the end of FY 2015, compared with 156,345 at the beginning of FY 2015." This is a decline of 2,346 residential and business collection boxes during FY 2015. Table III-1 shows that the Postal Service has reduced the number of residential and business collection boxes by over 6 percent from the end of FY 2012 through the end of FY 2015.

Table III-1
Collection Boxes FY 2012 to FY 2015
(End-of-Fiscal Year Numbers)

Year	Collection Boxes
2012	164,099
2013	159,729
2014	156,349
2015	153,999
Percent reduction from 2012 to 2015	-6.15%

Sources: FY 2012-2015 ACRs, USPS-LR-33.

This reduction is a notable, and ongoing, decline in retail access to postal services. The Public Representative would be interested in seeing the Postal Service's costs/benefits analysis concerning its decisions to reduce collection boxes. The Public Representative believes that beyond collecting mail, collection boxes also have value as a marketing tool. They are a constant visual reminder of the Postal Service. Reductions in the number of collection points may save money in the short run, but this will be done at the cost of reducing the Postal Service's brand exposure.

C. Wait-Time-in-Line

The FY 2015 national average for wait-time-in-line has increased by 12 seconds compared with the previous year's wait-time-in-line. Table III-2 compares the average wait-time-in-line from FY 2012 through FY 2015.

Table III-2
Average Wait-Time-In-Line
FY 2013 through FY 2015

Area	Average Wait-Time-in-Line (Minutes)			
	FY 2012	FY 2013	FY 2014	FY 2015
Capital Metro	2:22	2:19	2:03	2:16
Eastern	2:24	2:16	2:00	2:04
Great Lakes	1:57	2:00	2:00	2:03
Northeast	2:23	2:21	2:28	2:38
Pacific	3:25	3:19	3:07	3:11
Southern	2:33	2:22	2:23	2:49
Western	2:58	2:48	2:47	3:06
National	2:34	2:29	2:24	2:36

Source: Library Reference USPS-FY15-33, WaitTimeInLineFY2015.xlsx, Sheets: "Area Avg Wait, and Natl Avg Wait." FY 2014 ACD at 126.

Average wait-times-in-lines appear to be at acceptable levels. However, the Public Representative suggests that just reporting average times does not provide a complete picture of customer experience. Additional insight might be provided by capturing peak wait-times-in-lines disaggregated by facility size, time of the day, month of the year, etc.

D. Results of Customer Experience Surveys

The Postal Service measures customer satisfaction using the Customer Insights Measurement System. The results of the surveys show that customer satisfaction for the residential and small business segments declined for nearly every market dominant product. The Postal Service did not have reliable data to determine large business customer satisfaction in FY 2014 to be used in comparison with FY 2015 data.[9]

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[9] Data were also not available for residential Bound Printed Matter and Library Mail. The Public Representative is not troubled by this result, since residential households make little use of either of these categories of mail.

However, in FY 2015, large businesses appear to be less satisfied with service than residential or small business customers for nearly all categories of mail.

Table III-3 shows the change in customer satisfaction, by customer segment, from FY 2014 through FY 2015.

Table III-3
Customer Satisfaction with Market Dominant Products
FY 2014 through FY 2015

Market Dominant Products	Residential			Small Business			Large Business		
	FY 2015 (%)	FY 2014 (%)	Delta (%)	FY 2015 (%)	FY 2014 (%)	Delta (%)	FY 2015 (%)	FY 2014 (%)	Delta (%)
	A	B	C= A-B	D	E	F= D-E	G	H	I= G-H
First-Class Mail	89.22	91.15	-1.93	84.77	87.25	-2.48	83.27	n/a	n/a
Single-Piece International Mail	85.80	85.58	0.22	82.31	83.04	-0.73	82.65	n/a	n/a
Standard Mail	85.11	86.76	-1.65	80.82	83.82	-3.00	79.49	n/a	n/a
Periodicals	85.50	85.90	-0.40	82.42	83.26	-0.84	77.10	n/a	n/a
Single-Piece Standard Post	86.66	88.92	-2.26	82.65	84.06	-1.41	77.81	n/a	n/a
Bound Printed Matter	n/a	n/a	n/a	81.70	81.72	-0.02	76.54	n/a	n/a
Media Mail	87.17	88.66	-1.49	85.18	86.55	-1.37	78.61	n/a	n/a
Library Mail	85.10	n/a	n/a	85.43	81.79	3.64	78.66	n/a	n/a

Color coding: Mail classes with lower customer satisfaction scores in FY 2015 than in FY 2014.

Sources: Library Reference USPS-LR-FY14-38 and Library Reference USPS-LR-FY15-38.
n/a = data not available

The Public Representative suggests that the Commission closely monitor customer satisfaction to ensure that further declines do not occur. The Public Representative repeats his concern that service may be being reduced to save costs for the purpose of complying with the price cap. This provides no benefit to the customer.

IV. MARKET DOMINANT PRODUCTS

A. Introduction

Most market dominant products covered attributable costs in FY 2015. A class-by-class analysis follows. The market dominant products that did not cover attributable costs are shown in Table IV-1. Total losses for the underwater market dominant products and services equaled approximately $1.250 billion.

Table IV-1
FY 2015 Financial Results
for Market Dominant Products and Services
with Cost Coverage Below 100 percent

Product	**Cost Coverage (%)**	**Loss ($ Millions)**	**Unit Loss (cents)**
First-Class			
Inbound Letter Post[10]	71.9	97.9	30.8
Periodicals			
Within County	74.5	22.6	4.0
Outside County	75.3	497.1	9.4
Standard Mail			
Flats	80.1	521.7	9.9
Parcels	72.8	24.3	40.2
Package Services			
Media and Library Mail	76.2	85.3	114.0
Special Services			
Stamp Fulfillment Services[11]	85.1	0.7	N/A
Total:		1,249.7	

Data Sources: FY 2015 ACR at 59, Library Reference USPS-FY15-1, file “Public-FY15CRA”, tabs ‘Cost1’ and ‘Cost 2’.

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[10] Inbound Letter Post was formerly called Inbound Single-Piece First-Class Mail International. In the FY 2015 ACR, the Postal Service also refers to Inbound Letter Post as Inbound Single-Piece First-Class Mail International. *See* FY 2015 ACR at 8-9.

[11] The Public Representative refers to the most recent FY 2015 ACR numbers (revised on January 21, 2015), which do not match the corresponding numbers from Library Reference USPS-FY15-1.

B. First-Class Mail Cost Coverage

In FY 2015, most First-Class Mail products covered attributable costs, except for Inbound Letter Post. The cost coverage for the First-Class Mail class has continued to increase and reached 227.1 percent in FY 2015. Unit contribution to institutional costs has increased by approximately one cent (from 25 cents in FY 2014 to 26 cents in FY 2015).[12] It is easy to see that First-Class Mail, as a class, provides a significant contribution to institutional costs ($16.47 billion or 72.8 percent of the overall contribution provided by market dominant mail products).[13]

Although the Inbound Letter Post product failed to cover its attributable costs again this year, the product cost coverage has gradually increased from 65.6 percent in FY 2013, to 70.0 percent in FY 2014, and to 71.9 percent in FY 2015.[14] The reported total loss, however, also increased significantly from $74.8 million in FY 2014 (75.8 million in FY 2013) to $97.9 million in FY 2015. This is not surprising after taking into account that Inbound Letter Post volumes increased by almost 40 percent in FY 2015.[15]

Discussing the failure of Inbound Letter Post to cover attributable costs, the Postal Service emphasizes "the product's unique pricing regime," and the inability to "independently determine the prices for delivering foreign origin mail."[16] In the FY 2014 ACD, the Commission recognized "the pricing regime for the Inbound Letter Post, based upon the current UPU formula" and did not recommend any immediate remedial action.[17] Given the unique pricing regime of the Inbound Letter Post, and taking into consideration certain improvements in the product cost coverage observed over the last

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[12] *See* Library Reference USPS-FY15-1, file "Public-FY15CRA", tab 'Cost1'; FY 2014 ACR, PRC-LR-ACR2014/1, file "14 Summary_LR1", tab 'FCM'.

[13] *See* Library Reference USPS-FY15-1, file "Public-FY15CRA", tab 'Cost1'.

[14] FY 2015 ACR at 8 and FY 2014 ACD at 53.

[15] *See* Library Reference USPS-FY15-1, file "Public-FY15CRA", tab 'Cost1'; FY 2014 ACD at 53; FY 2014 ACR, PRC-LR-ACR2014/1, file "14 Summary_LR1", tab 'FCM'.

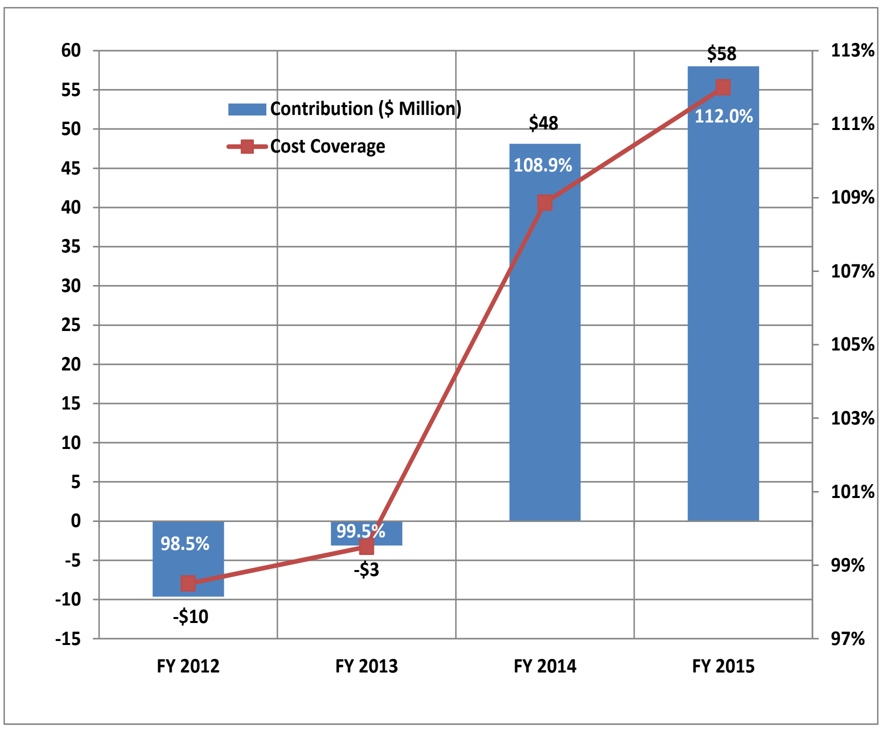
[16] FY 2015 ACR at 9.

[17] FY 2014 ACD at 53-54.

few years, the Public Representative does not conclude that First-Class Mail rates were out of compliance in FY 2015 within the provisions of chapter 36 of title 39.

For First-Class Mail Parcels (which did not cover costs in FY 2012 and FY 2013), the cost coverage was above 100 percent in FY 2014, and increased further in FY 2015. *See* Chart IV-1. The product's contribution to institutional costs also continued to increase. In FY 2015, revenue per piece increased at a faster pace than the cost per piece (by 18.7 cents and 10.2 cents, respectively).[18]

Chart IV-1
FY 2012 through FY 2015
Financial Results for First-Class Parcels



Data Sources: Library Reference USPS-FY15-1; FY 2014 ACR, PRC-LR-ACR2014/1, file "14 Summary_LR1", tab 'FCM'; FY 2013 PRC Financial Report, Revised April 10, 2014 at 43-44; FY 2012 ACD, Appendix D, Table D1.

[18] Library Reference USPS-FY15-1, file "Public-FY15CRA", tab 'Cost1' and FY 2014 ACR, PRC-LR-ACR2014/1, file "14 Summary_LR1", tab 'FCM'.

In the FY 2014 ACR, the Postal Service claimed that the observed FY 2014 increase in revenue per piece and decrease in cost per piece resulted from price increases for First-Class Mail Parcels implemented in January 26, 2014.[19] The Public Representative agrees with this conclusion.

C. Standard Mail Cost Coverage

In FY 2015, the Standard Mail class continued to be the largest mail class by volume, representing more than half (53.3 percent) of all market dominant mail volume and 29.3 percent of the total market dominant products' contribution to institutional costs. In FY 2015, Standard Mail volumes accounted for 80 billion pieces, which is consistent with FY 2014 numbers.[20] In FY 2015, the cost coverage for Standard Mail was 159.8 percent, and the overall dollar contribution of Standard Mail to institutional costs was $6.63 billion (compared to $16.47 billion for First-Class Mail).[21]

In FY 2015, the majority of Standard Mail products (except Standard Flats and Standard Parcels) covered attributable costs. In FY 2015, Standard Parcels and Standard Flats provided negative contribution to institutional costs which raises a concern about compliance with Section 3622(c)(2) of title 39, as discussed below.

1. Standard Mail Parcels

As reported by the Postal Service, the unit institutional burden of Standard Mail Parcels decreased from 52.5 cents in FY 2014 to 40.2 cents in FY 2015, and cost

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[19] FY 2014 ACR at 8. In January 2014, the Postal Service increased the price for First-Class Mail Parcels by approximately 11 percent. Docket No. R2013-10, Order No. 1890, November 21, 2013 at 38.

[20] *See* Library Reference USPS-FY15-1, file "Public-F15CRA', tab 'Volume1' and FY 2014 ACR, PRC-LR-ACR2014/1, file "14 Summary_LR1", tab 'Standard'.

[21] Library Reference USPS-FY15-1, file "Public-F15CRA', tab 'Cost1'.

coverage increased from 66.3 percent to 72.8 percent during the same period.[22] The Public Representative notes the modest cost coverage improvements in Standard Mail Parcels over the last few years. In the FY 2015 ACR, the Postal Service claims that the current failure of Standard Mail Parcels to covers costs is due to the transfer, in January 2012, of a large portion of Standard Mail Parcels to the competitive product category, and the recent changes in mailing requirements for the remaining Standard Mail Parcels product.[23] In the FY 2014 ACD, the Commission found that the product's revenues were not sufficient to cover attributable costs, but concluded that that the Postal Service's approach to improve cost coverage through above-average price increases would be appropriate.[24] In the FY 2015 ACR, the Postal Service affirms its commitment to improve the Standard Mail Parcels "product's cost coverage by proposing above-average price increase in future price adjustments."[25]

The Public Representative suggests that the Commission require the Postal Service to improve the productivity of Standard Mail Parcels in addition to continue to implement above-average price increases.

2. Standard Mail Flats

The financial condition of Standard Mail Flats has worsened. The product cost coverage fell to 80.2 percent, and contribution to the institutional burden further

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[22] *See Id.* and FY 2014 ACR, Library Reference USPS-FY14-1, file "Public_FY14CRA", tab 'Cost1.' To insure consistency between the FY 2015 and FY 2014 ACR numbers, the Public Representative provides a comparison between Standard Mail financial results from the corresponding ACR reports, and calculated by the Postal Services without accounting for Standard Mail fees. The Commission's financial calculations include fees in the product revenues, which reflects cost coverage and some other numbers, in the ACDs and the Financial Reports filed by the Commission. *See* FY 2014 ACD at 48.

[23] FY 2015 ACR at 16-17. In FY 2012, the market dominant product Standard Mail Not Flat-Machinables and Parcels was renamed Standard Parcels, and divided into two categories. One of those two categories was transferred to the competitive product list on January 22, 2012. *See* FY 2012 ACD at 18.

[24] FY 2014 ACD at 50.

[25] FY 2015 ACR at 17.

increased breaking the half a billion dollar point. *See* Chart IV-2. The Postal Service claims in its FY 2015 ACR that the increase in the institutional burden was mostly due to the increase in volume for Standard Flats in FY 2015. Per piece institutional cost burden, however, also increased and reached 9.9 cents in FY 2015.[26]

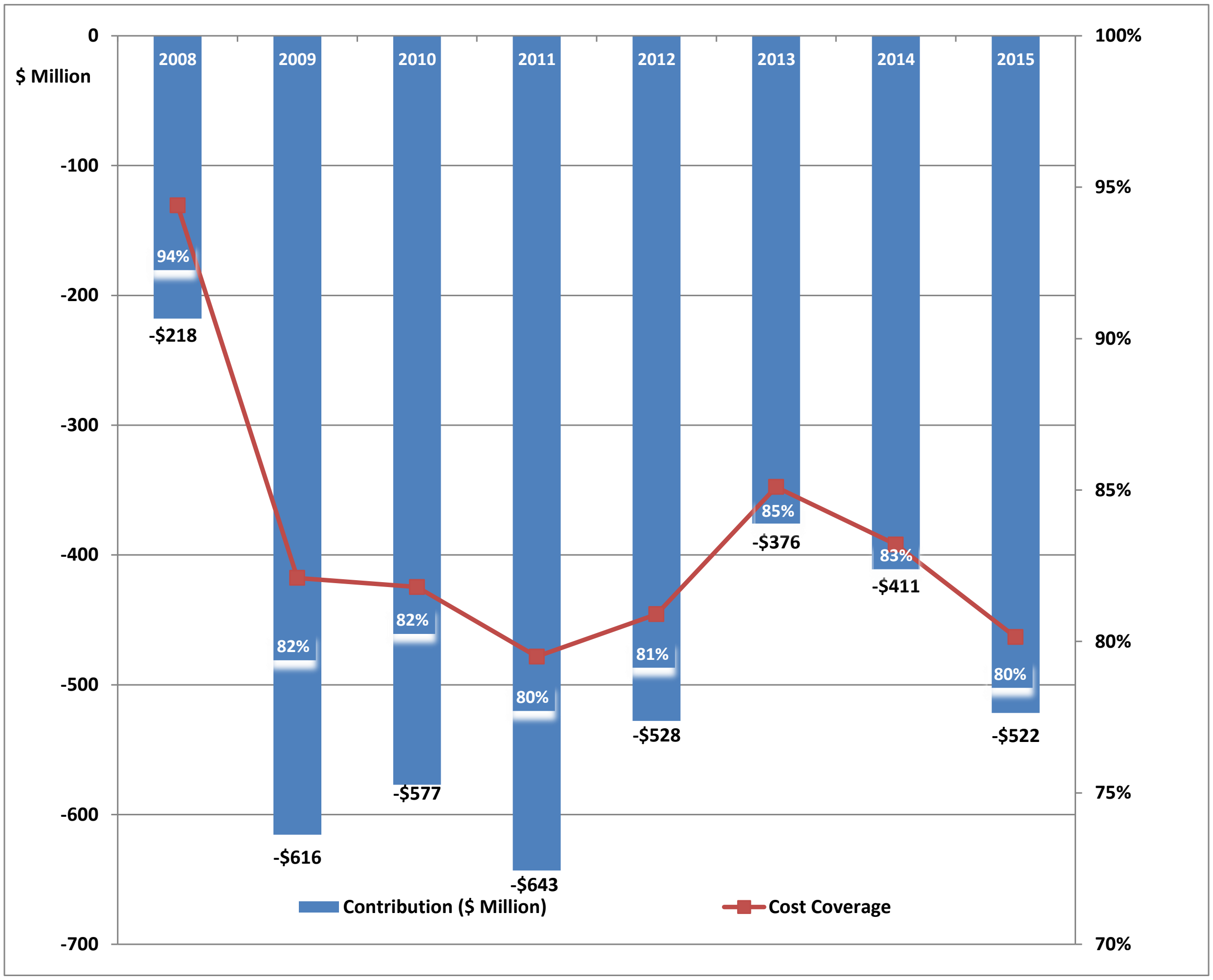
In the FY 2014 ACD, the Commission expressed concerns "that the product's financial performance [had] diverged from the positive trend demonstrated in the last two fiscal years".[27] As illustrated in Chart IV-2, the decrease in cost coverage has been observed for a second year after a few years of improvement in Standard Mail Flats cost coverage. In the FY 2014 ACD, the Commission concluded that the Postal Service was "not able to quantify the cost savings from operational changes designed to reduce Standard Mail Flats costs."[28]

[26] *Id.* at 16, 30-31.

[27] FY 2014 ACD at 48.

[28] *Id.*

Chart IV-2
FY 2008 through FY 2015
Financial Results for Standard Mail



Data Sources: Library Reference USPS-FY15-1, file “Public-F15CRA’, tab ‘Cost1’; FY 2014 ACR, PRC-LR-ACR2014/4.

In connection with the 2010 ACD directives, the Postal Service reports on the operational and costing methodology changes that took place in FY 2015. The Postal Service also provides “a statement summarizing the historical and current fiscal year subsidy of the flats product; and the estimated timeline for phasing out this subsidy.”[29]

[29] FY 2015 ACR at 18-31.

The Postal Service claims that implementation of three costing methodologies affected Standard Mail Flats costs in FY 2015, which resulted in a 0.99 cent (or 2.1 percent) increase in the reported unit costs.[30]

It is important to remember that in the FY 2014 ACD, the Commission stated that "the Postal Service must take aggressive action to reduce the unit costs or propose above-CPI price increases."[31] Although the Postal Service confirms that it is going to increase the price for Standard Mail "by at least CPU times 1.05 during the next general market-dominant price change," it traditionally maintains that it is unlikely that the shortfall will be eliminated until the Commission commences "a comprehensive review of the present regulatory system."[32]

In the FY 2014 ACD, the Commission expressed its concerns regarding "the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flat-shaped mail." The Commission recommended that the Postal Service "take further action concerning its cost reduction initiatives for flat-shaped mail."[33] Based on analysis of the information presented in the FY 2015 ACR, the Public Representative cannot conclude that the Postal Service followed the Commission's directives. Although the Postal Service gives a detailed description of the operational initiatives that took place in FY 2015, it admits its inability to provide any estimate of the resulting financial impacts.[34]

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[30] The three costing methodologies mentioned by the Postal Service are from the following rulemaking dockets: Docket No. RM2015-7 (Proposal Thirteen), Docket No. RM2015-19 (Proposal Ten), and Docket No. RM-2016-3 (Proposal Twelve). For more details regarding the Postal Service's estimates of their impact on costs, *see* FY 2015 ACR at 28-29.

[31] FY 2014 ACD at 48.

[32] *Id.* *See also*: Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015 at 3.

[33] FY 2014 ACD at 48.

[34] FY 2015 ACR at 19.

3. Shape-level Elasticities

As the Public Representative has previously noted, lack of knowledge about the elasticity for Standard Mail Flats creates additional problems in setting prices for the product.[35] In the 2012 ACD, the Commission directed the Postal Service to derive own-price elasticities for each of the different Standard Mail products and pointed out that it would "provide for a more realistic assessment of the impact of price changes on contribution."[36] In the FY 2013 ACD, the Commission encouraged the Postal Service to "continue its efforts to derive elasticity estimates for Standard Mail products."[37] Until recently, the Postal Service provided only aggregated elasticity estimates for Standard Regular Mail products in its reports on demand analysis.[38] As a result, the Postal Service continued to set prices for Standard Mail Flats without taking into consideration the actual price elasticity for the product (because such elasticity was still unknown).[39] However, in the recently filed January 2016 Demand Model, the Postal Service provided the elasticities for Standard Mail at the shape-level.[40] As shown in the provided spreadsheet, the estimated elasticities for Standard Regular Mail do vary by shape, and Standard Regular Parcels appear to be the most elastic (with the elasticity of -0.50), leaving Standard Mail Regular Flats behind (with the elasticity of -0.45).[41] The Public

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[35] *See* Docket No. ACR 2014, Public Representative Comments, February 2015 at 33-34 (ACR 2014 PR Initial Comments); Docket No. ACR2013, Public Representative Comments, January 31, 2014 at 29-30 (ACR 2013 PR Initial Comments).

[36] FY 2012 ACD at 116.

[37] FY 2013 ACD at 55.

[38] *See e.g*. USPS Demand Equation Estimation & Volume Forecasting Methodology, January 20, 2015; Letter from Daniel J. Foucheaux, Jr., USPS to Shoshana M. Grove, Secretary, Postal Regulatory Commission, January 22, 2014; Demand Analyses FY 2012 – Market Dominant, January 22, 2013.

[39] *For more details see* ACR 2014 PR Initial Comments at 34-35.

[40] Market-Dominant – United States Postal Service's Demand Equation Estimating and Volume Forecasting Methodologies, January 2016 (January 2016 Demand Model). The shape-level elasticities are also provided for First-Class Mail and Bound Printed Matter. *See* January 2016 Demand Model, folder "Market Dominant", file 'Changes.vs.2015(md)'.

[41] *See* January 2016 Demand Model, folder "Market Dominant", subfolder "Volume Forecasts", file "VF-Jan2016(md)", tab 'Elasts'.

Representative commends the Postal Service's efforts to improve elasticity estimates, which should assist in setting up prices for Standard Mail products, including Flats and Parcels.

D. Periodicals Cost Coverage

The Postal Service reports that in FY 2015, both Periodicals products (In-County and Outside County) failed to cover attributable costs. Moreover, the cost coverage of both products declined in comparison with FY 2014.[42] For the overall Periodicals class, the cost coverage was 75.6 percent in FY 2015, which is slightly (by 0.6 percent) less than in FY 2014.[43] As illustrated in Chart IV-3, Periodicals have consistently failed to cover attributable costs since enactment of the PAEA in 2006. In FY 2015, unit cost for Periodicals was 36.0 cents (0.7 cents higher than in FY 2014), and unit contribution to institutional burden was 8.8 cents (0.4 cents higher than in the previous year).[44] From FY 2007 to FY 2015, Periodicals volume decreased from 8,795 million to 5,838 million (with the annual rate of volume decline ranging between 2.2 and 8.6 percent). *See* Chart IV-4. In the last three years, however, Periodicals revenues were falling at a slower pace than their volumes.

In the FY 2014 ACD, the Commission emphasized the importance of "examining the underlying reasons why the Periodicals class failed to meet the Postal Service's financial projections," including those reflected in Docket No. R2013-11.[45] In the FY 2015 ACR, the Postal Service explains that the decrease in cost coverage for the Periodicals class was due to the increase in unit cost at a faster pace than the increase

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[42] FY 2015 ACR at 43.

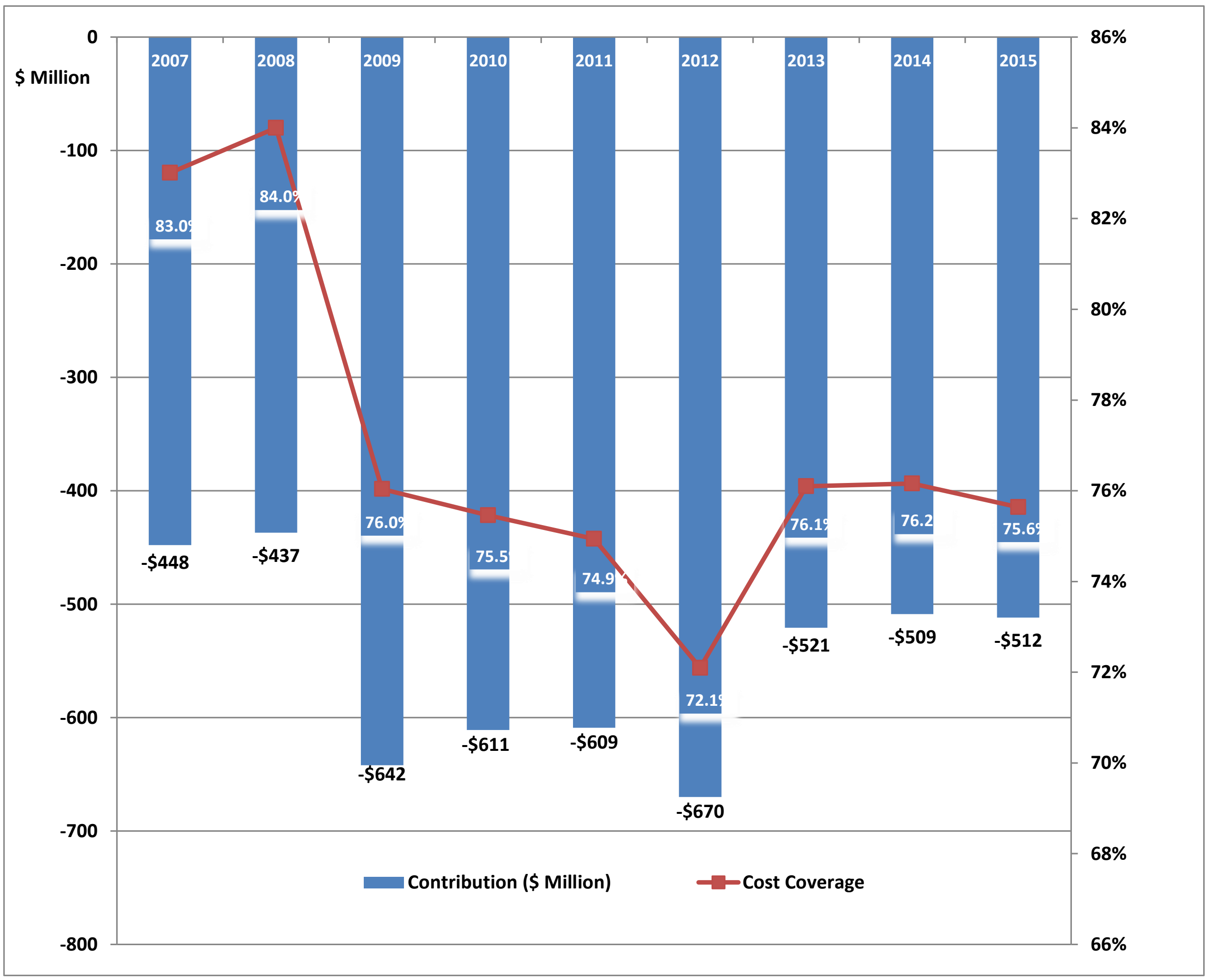
[43] *Id.* at 42 and FY 2014 ACD at 33-34.

[44] *Id.*

[45] FY 2014 ACD at 35.

in unit revenue (by 2 percent and 1.1 percent, respectively).[46] The Public Representative, however, does not find such explanation sufficient.

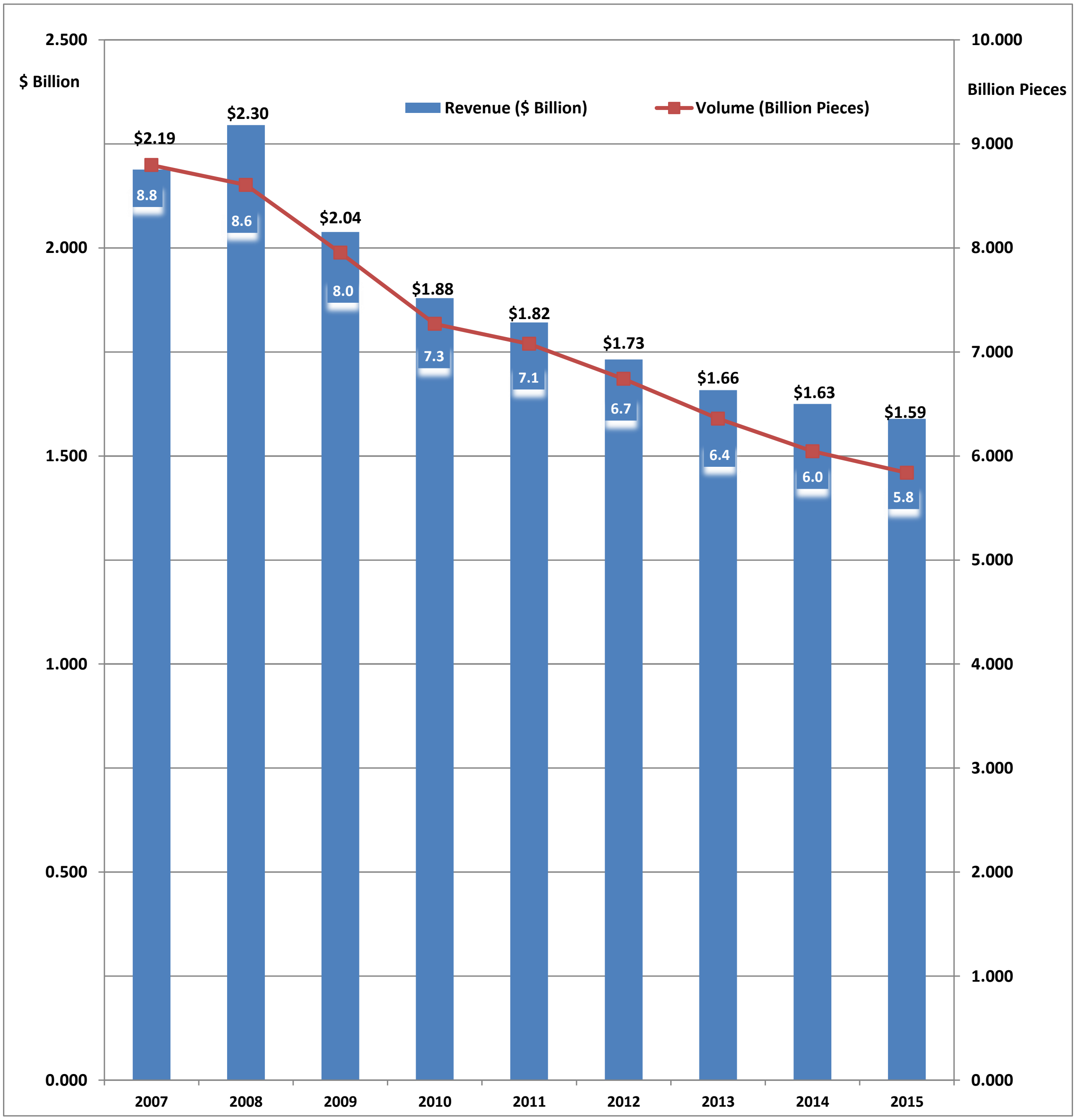
Chart IV-3
FY 2007 through FY 2015
Financial Results for Periodicals



Data Sources: Library Reference USPS-FY15-1 and FY 2014 ACR, Library Reference PRC-LR-ACR2014/5.

[46] FY 2015 ACR at 43.

Chart IV-4
FY 2007 through FY 2015
Volumes and Revenues for Periodicals



Data Sources: Library Reference USPS-FY15-1 and FY 2014 ACR, PRC-LR-ACR2014/5.

Taking into account the consistent failure of Periodicals to cover attributable costs, and facing the decline in cost coverage when the exigent surcharge is in effect, the Public Representative strongly advises the Postal Service to provide a comprehensive analysis of the factors that negatively affect the Periodicals cost coverage. In the FY 2015 ACR, the Postal Service indicated that Docket No. R2015-4 became a starting point for better addressing the Periodicals cost coverage, and marked a significant change in pricing strategy for Periodicals.[47] Considering the potential improvements in pricing strategy, the Public Representative believes that the Postal Service should file a report regarding the impact of the undergoing changes on the Periodicals cost coverage. The Public Representative further believes that the Postal Service should expand the efforts in implementing cost savings and productivity improvement measures as directed in the FY 2014 ACD.[48]

E. Package Services Cost Coverage

In FY 2015, cost coverage for Package Services was 104.9 percent. This is 7.6 percent less than the cost coverage of 112.5 percent in FY 2014, but still 3.3 percent more than the cost coverage of 101.6 percent in FY 2013. Although in FY 2015, the cost coverage for Package Services decreased, the class has produced sufficient revenues to cover attributable costs (after being underwater in FY 2012 when the cost coverage was only 97.7 percent).[49] In FY 2015, the cost per piece was $1.36, which is consistent with the $1.35 cost per piece observed in FY 2014. Revenue per piece, however, decreased from $1.52 to $1.43 (by 9 cents).[50]

[47] FY 2015 ACR at 45.

[48] FY 2014 ACD at 40-41.

[49] *See* FY 2015 ACR at 47; FY 2014 PRC Financial Analysis Report at 74; FY 2013 PRC Financial Report at 43 and FY 2012 ACD at 128.

[50] FY 2015 ACR at 47 and FY 2014 PRC Financial Analysis Report at 74.

The Postal Service claims that the decrease in cost coverage for the overall class is largely due to the cost coverage decline for one Package Services product, Media Mail/Library Mail. Cost coverage for the other Package Services products was in a healthy range between 118.7 percent and 176.3 percent.[51]

FY 2015 was the ninth consecutive year when revenue from Media Mail/Library Mail did not cover attributable costs.[52] In FY 2015, cost coverage for Media Mail/Library Mail fell substantially from 94.0 percent to 76.2 percent. Negative unit contribution reached $1.1 per piece, which resulted in an extra loss of 87 cents per piece in comparison with FY 2014. As the Postal Service indicates in its FY 2015 ACR, the observed increase in unit costs (by 99 cents) was due to "a large change in certain cost factors."[53] In its Responses to CHIR No. 2, Question 13, the Postal Service provides some clarification of these cost factors and explains that the decline in product cost coverage was primarily due to increases in Cost Segments 3 and 14 costs by 15 and 14 percent, respectively.[54]

Considering the value of Media Mail/Library Mail as outlined in 39 U.S.C. § 3622(c)(11), in the FY 2014 ACD, the Commission did not find the Media Mail/Library Mail product inconsistent with 39 U.S.C. § 3622. The Commission, however, encouraged "the Postal Service to continue pricing the Media Mail/Library Mail product in a way that brings the product toward full cost coverage."[55] The Public Representative supports the Postal Service's intention indicated in its FY 2015 ACR to "continue improving the cost coverage of Media Mail/Library Mail over time through above

[51] FY 2015 ACR at 47.

[52] *See Id*; FY 2014 ACD at 50 and FY 2013 ACD at 57.

[53] FY 2015 ACR at 47. *See* also Library Reference USPS-FY15-1 and FY 2014 PRC Financial Analysis Report at 74.

[54] Responses of the United States Postal Service to Questions 1-14 of Chairman's Information Request No. 2, January 15, 2016 (Responses to CHIR No. 2).

[55] FY 2014 ACD at 51.

average price increases."[56] However, taking into account a significant decrease in cost coverage of Media Mail/Library Mail in FY 2015, the Public Representative suggests that the Postal Service provide a comprehensive analysis of Media Mail/Library Mail costing and other factors that negatively affect product cost coverage, and develop a plan how to minimize their impact.

[56] FY 2015 ACR at 48.

V. WORKSHARING

A. Introduction

39 U.S.C. §3622(e)(2) directs the Commission to ensure worksharing discounts do not exceed the costs avoided by the Postal Service. The Public Representative's comments focus on thirty-six First-Class Mail, Standard Mail, and Package Services worksharing passthroughs that exceed 100 percent.

Before proceeding with a class-by-class analysis, the Public Representative makes the following observations. In previous years, the Commission found certain worksharing passthroughs out of compliance, but acceptable, because the Postal Service stated that the passthroughs would be fixed in the next upcoming price adjustment. This year, with inflation running extremely low, it is not possible to predict when the next upcoming price adjustment will occur. If the Commission accepts this justification in this year's ACD, it will have to acquiesce to the fact that worksharing passthroughs may be out of compliance for many, many months. This finding would certainly be subject to challenge.

There are potential solutions to this problem. The Postal Service could be directed to make the necessary worksharing passthrough corrections when the exigent surcharges are removed. This solution could be compromised if Congress decides to roll the surcharge into the base rates, or by other court directives. Alternatively, the Postal Service could be directed to file a price adjustment by a certain date (within 3 months for example) to adjust worksharing passthroughs.

Another issue that has caught the attention of the Public Representative is that the Postal Service calculated worksharing passthroughs based on exigent pricing, and then again in some instances on non-exigent prices. As will be explained below, the Commission has clearly stated that compliance with 39 U.S.C. § 3622 is to be reviewed using non-exigent prices. In most cases, it appears that non-exigent prices may produce lower passthroughs. However, the Public Representative suggests that for consistency with the Commission's position, the Commission direct the Postal Service to recalculate worksharing passthroughs based on non-exigent prices.

The Public Representative further urges the Commission to require the Postal Service to improve the substance of its justifications under the statutory exception which allow greater than 100 percent passthroughs. *See* 39 U.S.C. § 3622(e)(2). The Public Representative considers the exceptions listed under (A) new postal service, (B) rate shock, and (D) efficiency as more temporary in nature.[57] To the Public Representative, it appears that the Postal Service often abuses this temporary status by reusing the same exceptions year-after-year for the same product categories (especially the rate shock exception). To prevent potential abuse, the Public Representative suggests that the Postal Service submit a plan detailing how, over a limited number of rate cycles, it intends to bring presumptively excessive passthroughs under 100 percent.

A final observation pertains to worksharing passthroughs with cost avoidances that significantly vary from year-to-year. The Postal Service should consider leaving a buffer and not pass through 100 percent of avoided costs. This might reduce the number of non-compliant worksharing passthroughs that need to be considered every year.

[57] The Public Representative considers (C) educational, cultural, scientific, or informational value to be more permanent in nature (and does not discuss them in its comments).

B. First-Class Mail

Six First-Class Mail passthroughs exceed 100 percent. These are shown in Table V-1.

Table V-1
First-Class Mail
Non-ECSI, Problematic Passthroughs — FY 2015

Category	Passthrough (%)	USPS Statutory Justification	Public Representative's Conclusion
First-Class Mail			
Presorted Letters/Postcards			
Automation Mixed AADC Letters	139.4	None	Non-compliant
Automation AADC Letters	115.0	CPI Compliant	Compliant
Automation Mixed AADC Cards	110.0	None	Non-compliant
Automation AADC Cards	112.5	None	Non-compliant
Automation 5-Digit Cards	115.4	CPI Compliant	Compliant
Flats			
5-Digit Automation Flats	120.8	Rate Shock	Non-compliant

Source: FY 2015 ACR at 9.

The Postal Service does not provide a statutory justification for the excessive passthroughs for Automation Mixed AADC Letters, Automation Mixed AADC Cards, and Automation AADC Cards. It does say that the passthroughs will be corrected with the next general market dominant rate change. FY 2015 ACR at 9-12.

The Public Representative suggests that the Commission find the above passthroughs out of compliance. As corrective action, the Public Representative suggests that the Commission require the Postal Service to correct these deficiencies no later than at the time of reversing the exigent surcharge. If there is direction from Congress to include the surcharge in the base rates (or other event making the surcharge permanent), the Public Representative would then suggest that the Commission require the Postal Service to promptly file a market dominant rate request to adjust prices (within 3 months for example).

The Postal Service states that it does not need to provide a statutory justification for the excessive passthroughs for Automation AADC Letters or Automation 5-Digit Cards because these categories are only out of compliance using exigent prices. They are in compliance using CPI prices. FY 2015 ACR at 10, 12.

The Public Representative concludes that if, as the Postal Service claims, Automation AADC Letters and Automation 5-Digit Cards have passthroughs less than or equal to 100 percent based on non-exigent prices, they are in compliance with the statute.

The Public Representative contends that all passthroughs must be calculated and evaluated using CPI prices, not exigent prices. First, the Commission has stated that exigent rates are to be treated as a surcharge added to existing rates. Docket No. R2013-11, Order No. 1926, Order Granting Exigent Price Increase, December 24, 2013 at 180-181. Second, the Commission has asked for comments and subsequently ruled that compliance with 39 U.S.C. § 3622 is to be reviewed using non-exigent prices. Docket No. R2013-11, Order No. 2319, Order on Exigent Surcharge Removal, January 12, 2015 at 9.

The Public Representative evaluated all passthroughs and possible justifications in these comments using the information provided by the Postal Service. If any of the information provided by the Postal Service is calculated based on exigent rates,[58] the Commission must require the Postal Service to resubmit its calculations based on non-exigent prices. Otherwise, a proper review of worksharing discounts consistent with prior Commission directives cannot be undertaken.

The Postal Service justifies the excessive passthrough for 5-Digit Automation Flats using the rate shock exception (as it did last year). It states that this is acceptable

[58] This includes worksharing passthroughs, costs coverages, etc. The Public Representative recognizes that in many instances the difference in calculations may be insignificant. However, without seeing the calculations this cannot be verified.

"given the volatility of cost avoidance estimates and the significant increase for 5-Digit Automation Flats." FY 2015 ACR at 13.

The Public Representative concludes that the Postal Service has not adequately justified the above excessive passthrough. The statute also requires that "the amount of the discount above costs avoided…will be phased out over time." 39 U.S.C. 3622(e)(2)(B)(ii). To the Public Representative, this requirement implies that the Postal Service must describe its plan for phasing out the excessive discount over time. The Postal Service has not presented any credible plan. Rate shock was also used as the reason the previous year. With no plan, there is little hope that the Postal Service will ever correct this issue. The Public Representative urges the Commission to seek further support for the Postal Service's justification, or find the worksharing discount out of compliance and require corrective action.

Note that the Postal Service also has the option of building in a buffer and passing through less than 100 percent of costs avoided. This is one method of addressing the Postal Service's "volatility of cost avoidance estimates" concern.

Regardless, if the discount were made equal to avoided costs, the price for 5-Digit automation flats would have to increase by $0.033. That does not appear to be too excessive of an increase that would qualify for the rate shock exception.

C. Standard Mail

Twenty-three Standard Mail passthroughs exceed 100 percent. These are shown in Table V-2.

Table V-2
Standard Mail
Non-ECSI, Problematic Passthroughs — FY 2015

Category	Passthrough (%)	USPS Statutory Justification	Public Representative's Conclusion
Standard Mail (Commercial and Nonprofit)			
Letters			
Automation Mixed AADC Letters	325.0	Efficiency	Compliant
Automation AADC Letters	140.0	None	Non-compliant
Non-automation AADC Machinable Letters	106.3	None	Non-compliant
Non-automation 3-Digit Non-Machinable Letters	113.0	CPI Compliant	Compliant
Non-automation 5-Digit Non-Machinable Letters	123.6	Rate Shock	Non-compliant
DNDC Dropship Letters	225.0	Rate Shock	Compliant
DSCF Dropship Letters	225.0	Rate Shock	Compliant
Flats			
Automation FSS Scheme	366.7	New Rate Type	Compliant
Automation FSS Non-scheme	162.2	New Rate Type	Compliant
Non-automation ADC Flats	129.7	CPI Compliant	Compliant
Non-automation 3-Digit Flats	101.9	None	Non-compliant
Non-automation FSS Non-scheme	166.7	New Rate Type	Compliant
Parcels			
NDC Machinable Parcels	103.8	None	Non-compliant
NDC Irregular Parcels	160.4	Rate Shock	Compliant
Mixed NDC Machinable Barcoded Parcels	168.4	Efficiency	Compliant
Mixed NDC Irregular Barcoded Parcels	168.4	Efficiency	Compliant
NDC Marketing Parcels	135.2	Rate Shock	Compliant
SCF Marketing Parcels	109.7	None	Non-compliant
Mixed NDC Barcoded Marketing Parcels	168.4	Efficiency	Compliant
Carrier Route			
DNDC Letters	206.3	None	Non-compliant
DSCF Letters	220.0	None	Non-compliant
High Density and Saturation Letters			
DNDC Letters	206.3	None	Non-compliant
DSCF Letters	225.0	None	Non-compliant

Source: FY 2015 ACR at 31-42.

The Postal Service does not provide a statutory justification for the excessive passthroughs for Letters-Automation AADC Letters, Letters-Non-automation AADC Machinable Letters, Flats-Non-automation 3-Digit Flats, Parcels-NDC Machinable Parcels, and Parcels-SCF Marketing Parcels. It does say that the passthroughs will be corrected with the next general market dominant rate change. FY 2015 ACR at 32, 35-40.

The Public Representative suggests that the Commission find the above passthroughs out of compliance. As corrective action, the Public Representative suggests that the Commission require the Postal Service to correct these deficiencies no later than at the time of reversing the exigent surcharge. If there is direction from Congress to include the surcharge in the base rates (or other event making the surcharge permanent), the Public Representative would then suggest that the Commission require the Postal Service to promptly file a market dominant rate request to adjust prices (within 3 months for example).

The Postal Service states that it does not need to provide a statutory justification for the excessive passthroughs for Letters-Non-automation 3-Digit Non-Machinable Letters and Flats-Non-automation ADC Flats because these categories are only out of compliance using exigent prices. They are in compliance using CPI prices. FY 2015 ACR at 33, 35.

The Public Representative concludes that if, as the Postal Service claims, these categories have passthroughs less than or equal to 100 percent based on non-exigent prices, they are in compliance with the statute.

The Public Representative contends that all passthroughs must be calculated and evaluated using CPI prices, not exigent prices. First, the Commission has stated that exigent rates are to be treated as a surcharge added to existing rates. Docket No. R2013-11, Order No. 1926, Order Granting Exigent Price Increase, December 24, 2013 at 180-181. Second, the Commission has asked for comments and subsequently ruled that compliance with 39 U.S.C. § 3622 is to be reviewed using non-exigent prices. Docket No. R2013-11, Order No. 2319, Order on Exigent Surcharge Removal, January 12, 2015 at 9.

The Public Representative evaluated all passthroughs and possible justifications in these comments using the information provided by the Postal Service. If any of the information provided by the Postal Service is calculated based on exigent rates,[59] the Commission must require the Postal Service to resubmit its calculations based on non-exigent prices. Otherwise, a proper review of worksharing discounts consistent with prior Commission directives cannot be undertaken.

The Postal Service justifies the excessive passthrough for Letters-Non-automation 5-Digit Non-Machinable Letters, Letters-DNDC Dropship Letters, Letters-DSCF Dropship Letters, Parcels-NDC Irregular Parcels, and Parcels-NDC Marketing Parcels using the rate shock exception. FY 2015 ACR at 33, 36-37.

Generally, the Public Representative concludes that the Postal Service does not adequately justify the above excessive passthroughs. The statute also requires that "the amount of the discount above costs avoided…will be phased out over time." 39 U.S.C. § 3622(e)(2)(B)(ii). To the Public Representative, this requirement implies that the Postal Service must describe its plan for phasing out the excessive discount over time. The Postal Service has not presented any credible plan. With no plan, there is little hope that the Postal Service will ever correct these issues. The Public Representative urges the Commission to seek further support for the Postal Service's justifications.

Regardless, for Letters-Non-automation 5-Digit Non-Machinable Letters the Public Representative calculates a price increase of $0.017, or an increase of 3 percent, would bring the passthrough into full compliance. The Public Representative cannot conclude that this magnitude of price increase justifies the rate shock exception. Letters-Non-automation 5-Digit Non-Machinable Letters should be found out of compliance and corrective action ordered.

The magnitude of price change necessary to correct the excessive passthroughs for the remaining categories, appears sufficiently large such that the rate shock

[59] This includes worksharing passthroughs, costs coverages, etc. The Public Representative recognizes that in many instances the difference in calculations may be insignificant. However, without seeing the calculations this cannot be verified.

exception would apply (recognizing the previous comment that further justification still should be provided).

The Postal Service justifies the excessive passthrough for Letters-Automation Mixed AADC Letters, Parcels-Mixed NDC Machinable Barcoded Parcels, Parcels-Mixed NDC Irregular Barcoded Parcels, and Parcels-Mixed NDC Barcoded Marketing Parcels using the efficiency exception of 39 U.S.C. § 3622(e)(2)(D). FY 2015 ACR at 32, 38.

The Public Representative does not object to adequately justified passthroughs greater than 100 percent that fall under the efficiency exception. The Postal Service's reasoning appears appropriate in the above cases. However, the Public Representative suggests that the Commission require the Postal Service to provide a plan for bringing these passthroughs into compliance without the need to rely on an exception. Otherwise, the Postal Service may be tempted to apply the same exception year-after-year.

The Postal Service justifies the excessive passthrough for Flats-Automation FSS Non-scheme, Flats-Automation FSS Scheme, and Flats-Non-automation FSS Non-scheme using the new rate exception of 39 U.S.C. § 3622(e)(2)(A). FY 2015 ACR at 34, 35.

The Public Representative does not object to adequately justified passthroughs greater than 100 percent that fall under the new rate exception. The Postal Service's reasoning appears appropriate in the above cases. However, the Public Representative suggests that the Commission require the Postal Service to provide a plan for bringing these passthroughs into compliance without the need to rely on an exception. Otherwise, the Postal Service may be tempted to apply the same exception year-after-year.

D. Package Services

Seven Package Service passthroughs exceed 100 percent.[60] These are shown in Table V-3.

Table V-3
Package Services
Non-ECSI, Problematic Passthroughs — FY 2015

Category	Passthrough (%)	USPS Statutory Justification	Public Representative's Conclusion
Package Services			
Bound Printed Matter Dropship Flats			
Basic, Carrier Route DNDC Flats	111.5	None	Non-compliant
Basic, Carrier Route DSCF Flats	110.7	None	Non-compliant
Basic, DFSS Flats	112.2	None	Non-compliant
Basic, Carrier Route DDU Flats	111.7	None	Non-compliant
Bound Printed Matter Dropship Parcels			
Basic, Carrier Route DNDC Parcels/IPPs	111.5	None	Non-compliant
Basic, Carrier Route DSCF Parcels/IPPs	115.1	None	Non-compliant
Basic, Carrier Route DDU Parcels/IPPs	115.9	None	Non-compliant

Source: FY 2015 ACR at 48-51.

The Postal Service does not provide a statutory justification for any of the excessive passthroughs. It does say that the passthroughs will be corrected with the next general market dominant rate change. FY 2015 ACR at 48-51.

The Public Representative suggests that the Commission find the above passthroughs out of compliance. As corrective action, the Public Representative suggests that the Commission require the Postal Service to correct these deficiencies no later than at the time of reversing the exigent surcharge. If there is direction from Congress to include the surcharge in the base rates (or any other event making the surcharge permanent), the Public Representative would then suggest that the

[60] Note that two passthroughs within Media Mail/Library Mail also exceeded 100 percent but were adequately justified using the educational, cultural, scientific, or informational value (ECSI) exception. 39 U.S.C. § 3622(e)(2)(C).

Commission require the Postal Service to promptly file a market dominant rate request to adjust prices (within 3 months for example).

VI. COMPETITIVE PRODUCTS

A. Introduction

As mandated by 39 U.S.C. § 3633(a), the Commission's regulations in 39 C.F.R. § 3015.7 require that:

- Market dominant products do not subsidize competitive products (39 U.S.C. § 3633(a)(1));
- Each competitive product covers its attributable costs (39 U.S.C. § 3633(a)(2)); and
- Competitive products collectively cover an appropriate share of the Postal Service's institutional costs (39 U.S.C. § 3633(a)(3)).

The Public Representative concludes that market dominant products do not subsidize competitive products in accordance with 39 U.S.C. § 3633(a)(1). Several competitive products did not cover attributable costs in violation of 39 U.S.C. § 3633(a)(2). These products are: (1) International Money Transfer Service–Inbound, (2) International Money Transfer Service–Outbound, (3) Inbound Parcel Post (at UPU Rates), (4) International Ancillary Services, (5) Inbound Air Parcel Post (at non-UPU rates), (6) Priority Mail Contract 35, and (7) Parcel Return Service Contract 8. The Public Representative concludes that competitive products collectively cover an appropriate share of the Postal Service's institutional costs in accordance with 39 U.S.C. § 3633(a)(3).

B. Market Dominant Products Did Not Subsidize Competitive Products

The Public Representative applies the cross-subsidy test set forth in 39 C.F.R. § 3015.7(a) to test for compliance with 39 U.S.C. § 3633(a)(1). In Order No. 399, the Commission approved the hybrid incremental cost methodology for this test.[61] Under that methodology, incremental costs for domestic competitive products, attributable

[61] Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposal Twenty-Two through Twenty-Five), January 27, 2010, at 4-5 (Order No. 399).

costs for competitive international products, and group specific costs are aggregated to calculate the hybrid incremental cost total for competitive products. To satisfy the cross-subsidy test, and comply with 39 U.S.C. § 3633(a)(1), the total hybrid incremental costs for competitive products must be lower than the total revenue for competitive products.

In FY 2015, the total hybrid incremental costs for competitive products were $12.197 billion.[62] In FY 2015, the total revenue for competitive products (Competitive Mail and Services) was $16.425 billion.[63] In FY 2015, the total competitive products revenue exceeds the total hybrid incremental costs for competitive products. The Public Representative concludes that the cross-subsidy test is satisfied and market dominant products did not subsidize competitive products during FY 2015.

C. Competitive Products That Did Not Cover Attributable Costs

1. International Money Transfer Service–Inbound and International Money Transfer Service–Outbound

In FY 2010, the Commission approved the Postal Service's request to classify International Money Transfer Service–Inbound, and International Money Transfer Service–Outbound as two separate competitive products.[64] In FY 2015 (as in both FY 2013 and FY 2014), these products failed to cover attributable costs.

In the FY 2014 ACD, the Commission concluded that both the International Money Transfer Service–Inbound, and International Money Transfer Service–Outbound products failed to satisfy 39 U.S.C. § 3633(a)(2), and ordered the Postal Service to take corrective action.[65] The Commission directed the Postal Service to report (in 90 days)

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[62] FY 2015 ACR at 65.

[63] *Id.* and Library Reference USPS-FY15-1, file "Public_FY15CRA", tab 'Cost3'.

[64] *See* Docket No. MC2009-19, Order Approving Addition of Postal Services to the Mail Classification Schedule Products Lists, January 13, 2010 (Order No. 391).

[65] FY 2014 ACD at 71.

on the feasibility of an improvement to the methodology of calculating attributable costs for both products. The Commission also suggested considering the option of a price increase for International Money Transfer Service–Outbound.[66]

In its 90-day Responses, the Postal Service discussed the major difficulties in improving the reliability of the International Money Transfer Service cost estimates, and emphasized the small number of International Money Transfer Service transactions.[67] In FY 2015 (in comparison with FY 2014), International Money Transfer Service–Inbound experienced a substantial decrease in product revenue. Effective January 17, 2016, the Postal Service, however, implemented price increase (by 3.3-3.7 percent) for International Money Transfer Service–Outbound. The Public Representative concludes this price increase might have a positive impact on International Money Transfer Service cost coverage in FY 2016.[68]

2. Inbound Parcel Post (at UPU Rates)

The Postal Service claims that although Inbound Parcel Post (at UPU Rates) failed to cover attributable costs in FY 2015, its "rates are set according to formulae determined by the Universal Postal Union (UPU) Acts," leading to the Postal Service's inability to change them unilaterally.[69] The Public Representative still finds it is important to point out that Inbound Parcel Post (at UPU rates) is a relatively new

[66] *Id.* at 76. The Commission directed the Postal Service "to report within 90 days on the feasibility of developing of attributable costs for both products based on alternatives to the IOCS methodology. On June 30, 2015 the Postal Service provided the requested report. *See* FY 2014 ACR, Responses of the United States Postal Service to Commission Requests for Additional Information Regarding International Money Transfer Service and EPG in the FY 2014 Annual Compliance Determination, June 30, 2015 (90-day Responses).

[67] 90-day Responses at 4-7.

[68] *See* Docket No. CP2016-9, Order Approving Changes in Rates of General Applicability for Competitive Products, November 13, 2016. (Order No. 2814). *See also* Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 15-1, October 16, 2015.

[69] FY 2015 ACR at 66-67.

product, and its predecessors, Inbound Surface Parcel Post (at UPU rates) and Inbound Air Parcel Post (at UPU rates), both covered costs in FY 2013 and FY 2014.

For example, in FY 2014, the cost coverage for the market dominant product Inbound Surface Parcel Post (at UPU rates) was 140.6 percent.[70] In Order No. 2160, the Commission approved the Postal Service's request to transfer Inbound Surface Parcel Post (at UPU rates) to the competitive product list, and merge it with Inbound Air Parcel Post.[71] In Order No. 2310, the Commission also approved the Postal Service's request to change rates for Inbound Parcel Post (at UPU rates) effective January 1, 2015.[72] In Order No. 2948, the Commission approved a Postal Service's request to change rates for Inbound Parcel Post (at UPU rates) again, effective January 1, 2016.[73]

Considering the inability of Inbound Parcel Post (at UPU rates) to cover costs in FY 2015, and in the view of the recent changes in product classification and its rates, the Public Representative believes that the product requires special attention from the Postal Service and close monitoring by the Commission.

3. International Ancillary Services

As opposed to the previous year, International Ancillary Services failed to cover costs in FY 2015 primarily due to relatively high losses for Outbound Competitive International Registered Mail.[74] As a result of this failure, as well as the failure of the

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[70] FY 2014 ACR, PRC-LR-ACR2014/1, file "14 Summary_LR1", tab 'Table_Current_V2'.

[71] Docket No. MC2014-28, Order Approving Product List Transfer, August 19, 2014, at 8 (Order No. 2160).

[72] Docket No. CP2015-24, Order Accepting Changes in Rates for Inbound Parcel Post (at UPU Rates), December 29, 2014 (Order No. 2160). *See also* Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates) and Application for Non-Public Treatment, December 16, 2014.

[73] Docket No. CP2016-56, Order Accepting Changes in Rates for Inbound Parcel Post (at UPU Rates), December 29, 2015 (Order No. 2160). *See also* Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates) and Application for Non-Public Treatment, December 16, 2015.

[74] Library Reference USPS-FY15-NP2, folder "ICRA Core Files", file 'Reports (Unified)'.

International Money Transfer Service–Inbound, and International Money Transfer Service–Outbound to cover costs, the overall International Special Services did not cover costs either. The Public Representative believes that the Postal Service should provide comprehensive information regarding the deterioration in the financial performance of the International Ancillary Services to further analyze this issue.

4. Inbound Air Parcel Post (at non-UPU rates)

International product, Inbound Air Parcel Post (at non-UPU rates), consists of inbound air parcels for Royal Mail and collectively for several European postal operators that are parties to the E-Parcel Group (EPG) Agreement. In FY 2012-FY 2014 Inbound Air Parcel Post (at non-UPU rates) failed to cover attributable costs.[75] In the FY 2014 ACD, the Commission directed the Postal Service to pursue some additional measures in order to improve the financial results for Inbound Air Parcel Post (at non-UPU rates) during FY 2015. The Commission also directed "the Postal Service to negotiate compensatory rates within the EPG-Agreement or extricate itself from the Agreement."[76]

In the FY 2015 ACR, the Postal Service confirmed that it "is taking remedial measures to address Inbound Air Parcel Post at Non-UPU Rates," tendered by several postal operators and "will exit the agreement according to its terms on June 30, 2016."[77]

Considering the regular failure of the Inbound Air Parcel Post (at Non-UPU rates) to cover attributable costs, the Public Representative generally agrees that the proposed measure is reasonable.

5. Priority Mail Contract 35 and Parcel Return Service Contract 8

Two domestic competitive NSA products failed to cover their costs in FY 2015. As the Postal Service noted in the FY 2015 ACR, the cost coverage for these products

[75] FY 2014 ACD at 79; FY 2013 ACD at 90 and FY 2012 ACD at 170.

[76] FY 2014 ACD at 81.

[77] FY 2015 ACR at 67.

was just slightly below 100 percent.[78] The Public Representative suggests that the Postal Service perform an evaluation, and either amend or terminate these contracts.

D. Competitive Products Collectively Covered an Appropriate Share of the Postal Service's Institutional Costs.

Competitive products must cover "an appropriate share of the institutional costs of the Postal Service." 39 U.S.C. § 3633(a)(3). The Commission has determined "the appropriate share of the institutional costs to be recovered from competitive products collectively is, at a minimum, 5.5 percent of the Postal Service's total institutional costs." 39 C.F.R. § 3015.7(c).

As Library Reference USPS-FY15-1 shows, the Postal Service's total institutional costs in FY 2015 were $33.573 billion; 5.5 percent of which would be approximately $1.847 billion.[79] Competitive products provided a contribution of $4.511 billion in FY 2015, and thereby satisfy the requirements of 39 U.S.C. § 3633(a)(3) and 39 C.F.R. § 3015.7(c).

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[78] FY 2015 ACR at 66.

[79] Library Reference USPS-FY15-1, file "Public-FY15CRA", tab 'Cost3'.

VII. CONCLUSION

The Public Representative respectively submits the foregoing comments for the Commission's consideration.

Respectfully submitted,

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